ILLINOIS DEPARTMENT OF LABOR
BUREAU OF EMPLOYMENT SECURITY
DIVISION OF UNEMPLOYMENT COMPENSATION

THE ILLINOIS UNEMPLOYMENT
TRUST FUND, 1939-1973

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The Illinois Unemployment Trust Fund, 1939-1973

Introduction

This report gives the past trends, current status and future outlook
of the Illinois unemployment trust fund. The past trends and current sta-
tus are shown in Tables 1 and 2. Three alternative economic assumptions
are made for the period from 1971 through 1973, and are set forth in Table
3. The resulting future values of the fund under these assumptions are
developed in Tables 4 and 5. Table 4 indicates the future values of the
fund resulting from the anticipated receipts and expenditures. Table 5
shows the factors determining the contribution rates and the resulting
contributions based on the taxable wages assumed in Table 3.

In all its calculations and assumptions, this year's report includes
the anticipated effects of the passage by Congress of Public Law 91-373,
entitled the Employment Security Amendments of 1970. This act provides
for increases in the number of covered employees and employers, and of
the taxable wage base. It also includes provisions for temporary exten-
sions of benefit payments in times of state and/or national high unem-
ployment. The cost of the extended benefits would be shared equally by
the Federal and State governments.

Past trends

The fund had declined from a high of $514 million on June 30, 1953 to
a low of $316 million by June 30, 1959 (Table 1). Improved economic con-
ditions and the 1959 amendments to the Unemployment Compensation Act
strengthened it to $564 million as of June 30, 1967. However, the very
low contribution rates during 1967-1970 and the increase in benefits in
1970 resulted in a reduction in the trust fund balance to $400 million
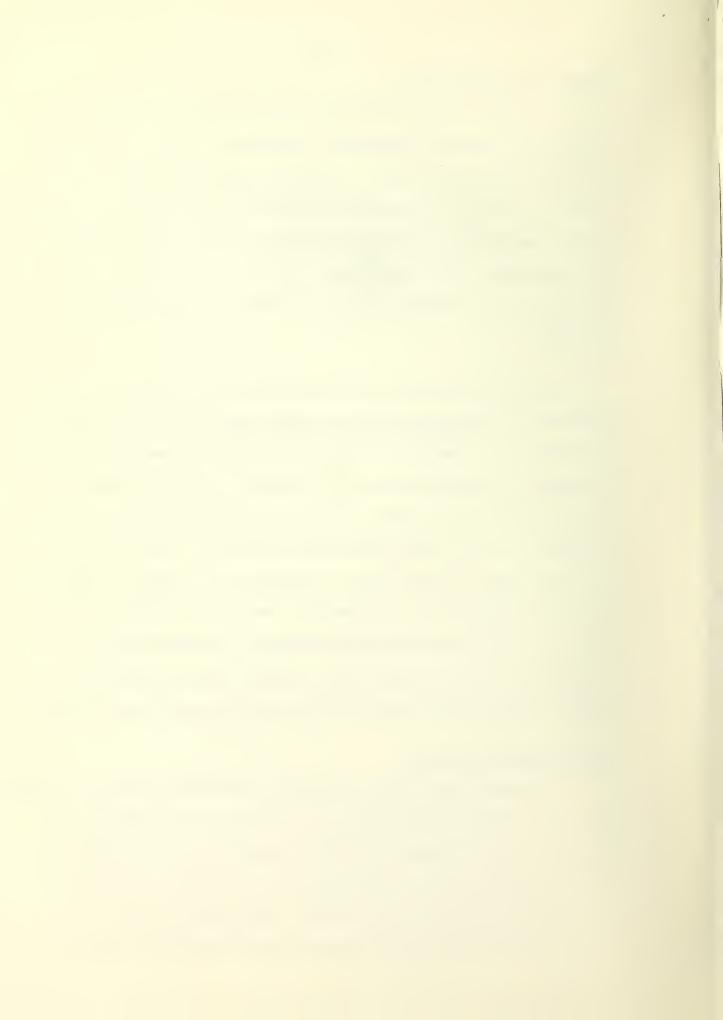as of December 31, 1970.

Current Status of the fund

On December 31, 1970 the balance of the fund was 1.58 percent of the total wages covered by unemployment compensation in the year ended June 30, 1970. The highest benefit cost rate in any 12-month period since December 31, 1957 was 1.73 percent of total wages for each of the 12-month periods ending with January 31 and February 28, 1959. The fund, expressed as a percentage of total wages was, therefore, 0.91 times this rate. This multiple is below the range of 1.5 - 3.0 which is considered desirable for the fund.

Included in this report and immediately following Table 5, is a reproduction of Unemployment Insurance Program Letter No. 1087, released by the United States Department of Labor. This release gives preliminary data concerning the reserve funds of all the States as of June 30, 1970. It will be noted that the Illinois reserve ratio expressed as a percentage of total wages paid in covered employment, is lower than that of any other State (see Table 2 of the release). Expressed as a multiple of the highest cost rate experienced since January 1958, the Illinois reserve is lower than that of any other State except Michigan. It should be noted that Michigan ranks below Illinois despite a higher reserve ratio, because its highest cost rate since January 1958 was more than twice that of Illinois.

Assumptions for the future

To estimate future values of the fund, assumptions were made concerning total wages, taxable wages, benefit cost rates, and the unadjusted state experience factors between now and 1973. The values of these items over the past years as shown in Tables 1 and 2 served as useful background in deriving the assumptions for the future. Three different sets of assumptions are set forth in Table 3 and are used in estimating the values of

the trust fund in 1971-73. They are identified as follows:

1. Recovery in 1972
2. Mild recession in 1972
3. Severe recession in 1972.

These assumptions are not predictions, but are the specific values assigned to represent broad classes of economic conditions. They, thus, describe three particular types of economic conditions. They do not cover all possibilities or even the complete range of possibilities. What actually happens depends on how closely actual economic conditions will match those assumed. The assumptions are, nevertheless, useful in identifying sets of conditions which may be described as recovery, mild recession and severe recession.

Under the assumption of recovery, benefit cost rates as percentages of total wages are expected to be considerably below the 1970 rate (estimated as 0.72 percent) after 1971. Specifically it is assumed that the cost rate will be 0.75 percent in 1971 and 0.50 percent in 1972 and 1973.

Under the assumptions of a mild recession in 1972, the benefit cost rate as a percentage of total covered wages will be 0.80 percent in 1971, will rise to 1.30 percent in 1972, and will drop back to 1.00 percent in 1973 as recovery begins (Table 3).

Under the assumption of a severe recession in 1972, the benefit cost rate as a percentage of total covered wages will be 0.80 percent in 1971, will rise to 1.80 percent in 1972, and drop back to 1.00 percent in 1973. The recovery is thus assumed to be relatively greater than in a mild recession. These relative rates of recovery are suggested by historical experience.

Benefit cost rates under the recession assumptions include the effect of extended benefits. It was assumed that Illinois will adopt the federal

requirements for triggering in temporary extended benefit periods. Part
of the additional cost of the extension of the benefit periods would be
borne by the federal government. All these factors have been taken into
consideration in making the assumptions in Table 3.

Future values of the fund

The changes in the unemployment trust fund in 1970-1973 (Table 4)
were estimated on the basis of the assumptions of Table 3. On December
31, 1970 the trust fund balance was $400,279,000. From this figure, fu-
ture values are projected, based on the three sets of economic assumptions
referred to above.

With an increase in the average tax rate to 0.9 percent in 1971, 1.6
percent in 1972, and 1.8 percent in 1973, the downward trend of the fund
balance should cease in 1972 under the recovery assumption. At the end
of 1971, it will be at $309,400,000 and by December 31 of 1972 and 1973
it will rise to $410,000,000 and $554,400,000 respectively.

The decrease in the fund during calendar year 1971 will cause its
balance expressed as a percentage of the total covered wages to fall from
1.58 percent on December 31, 1970 to 1.21 percent at the end of 1971
(Table 4). As recovery sets in, this percentage will rise to 1.43 per-
cent by the end of 1972 and 1.74 percent by the end of 1973. This last
percentage is approximately equal to the highest twelve-month benefit
cost rate since January 1958, and is, therefore, only 2/3 of the recom-
mended minimum adequacy level.

Under the assumptions of mild or severe recessions in 1972, the re-
serve fund will drop continuously throughout 1971 and 1972. If the re-

cession is mild as described by the assumptions, the fund will be $299,100,000 by the end of 1971 and $155,100,000 by the end of 1972. It will recover only to $237,500,000 by December 31, 1973.

If the recession is severe, the fund will also be $299,100,000 at the end of 1971, but it will reach a low of $18,500,000 by December 31, 1972. Even with the high 1973 average contribution rate of an estimated 3.0[1]/ percent for 1973, it will only reach $140,800,000 by the end of that year. This amount as a percentage of total wages is only .28 times the highest benefit cost rate since January 1958.

Since a recession is assumed for 1972, it is unlikely that another would recur in 1974, or soon afterward, before the fund made some recovery. However, if the assumed recession of 1972 were to be much longer than assumed or if the 1973 recovery were to be much smaller, or if another recession should start in 1974 or soon afterwards, the reserve would be inadequate to meet these contingencies.

Conclusion

If a severe recession should occur in 1972, the unemployment trust fund will come close to exhaustion. Even a mild recession in that year will reduce it to a very low level. In spite of the added contributions resulting from the 1972 increase in the taxable wage base, the fund balance will fall below $156,000,000 in the case of a mild recession and below $19,000,000 in the case of a severe recession. These dangers to the solvency of the fund suggest that the $450,000,000 goal set for it in 1959 requires reconsideration.

The Advisory Board in its report of 1959 said: "In making recommendations set forth above, the Advisory Board is cognizant of the fact that a fund of $450,000,000 by the end of 1961 is a minimum replenishment goal in view of the heavy demands that may be made on the fund in the event of an economic setback of unexpected severity. The Board is

1/ See footnote 2 of Table 5.

deeply concerned over the possible inadequacy of a $450,000,000 fund in the event of a recession of unforseen dimensions. Accordingly, the Board suggests the possibility, if unforseen future circumstances deplete the fund to dangerously low levels, of applying for Federal advances under the Employment Security Administrative Financing Act of 1954 (the Reed Act)."

The following general policy guidelines may be considered for maintaining an adequate fund:

1. The fund should be between 1.5 and 3 times the highest 12-month cost rate since January 1, 1958.
2. The funding system should provide for contracyclical financing.1/ If this cannot be attained, due to problems in forecasting, minimal rate fluctuation from year to year is highly desirable from the viewpoint of the effect on the economy and the welfare of the employer. Sharp fluctuations in rates should be avoided.
3. The effectiveness of the experience rating system should be maintained.

Past experience with respect to these three considerations may serve as a guide for future decisions. As of June 30, 1959 the $450 million goal as a percentage of total wages was approximately two times (2.04) the highest cost rate in the past decade. After the institution of this goal, contribution rates were raised to a relatively high level. In spite of the policy of contracyclical financing, the rates continued relatively high throughout the recession of 1961-1962, and remained high until the goal was nearly attained on June 30, 1964 ($440 million). Experience rating was partially ineffective. When contribution rates are high, there is an increase in the number of employers who do not pay commensurate with the unemployment for which they are responsible, because of the ceiling placed on rates (2.7 or 4 percent). This means that employers who do pay their own way must, in addition, finance part of the costs attributable to "penalty rate" employers. Furthermore, em-

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1/ See "Declaration of Public Policy", The Unemployment Compensation Act, p. 1, which provides for "the setting aside of reserves during periods of employment to be used to pay benefits during periods of unemployment..."

ployers contend that maximum rated employers lose incentive to contest ineligible claims.

The potential liability of the fund has increased drastically since 1959. This is evidenced by increases in the number of covered workers, total wages, and the average weekly benefit amount. The increase of the number of covered workers by about 9 percent in 1972, which is required by the new Federal Law, increases this liability. The number of covered workers had risen from 2.6 million in 1959 to 3.2 million in 1968 and has remained at about that level during 1969-70. After 1971, this number will be increased to about 3.5 million. Total wages, generally recognized as a benchmark of potential liability, have increased about 55 percent from $13.8 billion in 1959 to an estimated $25.2 billion in 1970, which was lower than that which might have been expected if full employment had prevailed. The average weekly benefit amount for total unemployment has risen from $30.70 in 1959 to about $51.85 in 1970.

A further indication of the inadequacy of the present goal for the trust fund is its relation to the highest cost rate expressed as a percentage of total wages. In 1959, the $450,000,000 goal represented about 3.53 percent of the total covered wages of the preceding year. This was about 2.04 times the highest benefit cost rate experienced during the preceding decade. The goal now represents only 1.79 percent of the total covered wages estimated for 1970. This is approximately the percentage of total wages paid as benefits during the 12-month period ending in January 1959. Thus the goal is only approximately equal to the highest cost rate, while the recommended level for the fund is between 1.5 and 3.0 times the highest cost rate.

The timing of any change in the goal is important in order to conform effectively with the policy guidelines presented earlier. If the goal is left at $450 million, it will become even less adequate as the potential liability of the fund increases. The longer this goal exists, the greater is the likelihood that the balance will reach a dangerously low level during a recession. This recession would necessitate a sharp increase in contribution rates. If, on the other hand, the goal is raised starting in 1972, rates will rise more gradually.

For these reasons it is desirable to raise the goal for the determination of the rates for 1972 and thereafter. The most desirable goal is one that is not expressed as a dollar balance because eventually any amount so established will become inadequate as total wages paid in covered employment grow. It would be best if the goal were expressed as a percentage of the total wages. So expressed, it ought to equal at least 1.5 times the highest cost rate actually experienced since 1958. As of June 30, 1971, the achievement of such a goal would require a balance of about $654,000,000.

An immediate unrestricted change to such a goal would bring about a steep rise in the average contribution rate. To limit the rise to more moderate proportions, it may be desirable to attempt to reach such a fund goal over a three year period.

TABLE 1. Unemployment trust fund on June 30, 1939-1970 in relation to total and taxable wages in preceding calendar year and to highest cost rate in last decade, Illinois

| June 30 of specified year | Unemployment trust fund1/ | Wages in covered employment in preceding calendar year in thousands of dollars2/ | | Trust fund as percentage of wages | | Multiple of highest cost rate3/ |
		Total	Taxable	Total	Taxable	4/
1939	$153,885,221	$2,216,673	$2,216,673	6.94	6.94	4/
1940	185,971,892	2,441,940	2,441,940	7.62	7.62	4.88
1941	211,340,903	2,774,285	2,511,402	7.62	8.42	4.31
1942	273,597,837	3,457,599	3,113,837	7.91	8.79	4.47
1943	347,715,460	4,161,060	3,722,029	8.36	9.34	4.72
1944	420,590,260	4,881,671	4,310,512	8.62	9.76	4.87
1945	499,352,522	5,310,195	4,585,393	9.40	10.89	5.31
1946	484,370,799	5,285,114	4,534,436	9.16	10.68	5.18
1947	482,736,322	5,919,323	4,938,762	8.16	9.68	4.61
1948	497,642,559	7,024,543	5,710,006	7.08	8.72	4.00
1949	500,506,595	7,744,953	6,049,103	6.46	8.27	3.65
1950	447,355,476	7,450,300	5,802,689	6.00	7.71	3.39
1951	453,082,672	8,084,599	6,094,244	5.60	7.43	3.29
1952	473,725,952	9,151,576	6,607,404	5.23	7.25	3.08
1953	514,144,267	9,759,145	6,848,569	5.27	7.51	3.10
1954	484,957,728	10,656,613	7,220,683	4.55	6.72	2.68
1955	432,456,697	10,422,561	6,934,453	4.15	6.24	2.44
1956	451,217,483	11,279,839	7,244,201	4.00	6.23	2.35
1957	482,370,511	12,538,539	7,834,001	3.85	6.15	2.38
1958	419,502,270	13,059,450	7,942,281	3.21	5.28	1.98
1959	316,492,518	12,738,345	7,580,275	2.48	4.18	1.43

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TABLE 1. Unemployment trust fund on June 30, 1939-1970, in relation to total and taxable wages in preceding calendar year and to highest cost rate in last decade, Illinois-Concl.

June 30 of specified year	Unemployment trust fund1/	Wages in covered employment in preceding calendar year in thousands of dollars2/		Trust fund as percentage of wages		Multiple of highest cost rate3/
		Total	Taxable	Total	Taxable	
1960	$331,769,427	$13,807,108	$7,934,975	2.40	4.18	1.39
1961	321,209,580	14,150,662	7,976,552	2.27	4.03	1.31
1962	344,545,556	14,253,511	7,828,911	2.42	4.40	1.40
1963	385,479,325	15,011,634	8,045,107	2.57	4.79	1.49
1964	439,684,727	15,560,025	8,146,800	2.83	5.40	1.64
1965	505,706,239	16,732,536	8,487,234	3.02	5.96	1.75
1966	554,568,375	18,090,670	8,983,603	3.07	6.17	1.77
1967	564,498,091	19,985,209	9,684,378	2.82	5.83	1.63
1968	529,137,542	21,161,933	9,965,895	2.50	5.31	1.45
1969	504,165,405	22,818,446	10,320,871	2.21	4.88	1.23
1970	448,624,770 5/	24,906,153 6/	10,742,859 6/	1.80	4.18	1.04

1/ Source: Illinois Bureau of Employment Security, Annual Report, (Fiscal Year 1969) p. 85. The figures for 1939-56 do not include accrued interest on the trust fund for the last quarter nor amounts due from the federal government for reimbursement of benefits. Later figures add these items.

2/ Ibid. pp. 90-91.

3/ Obtained by expressing the balance of the unemployment trust fund as of June 30 as a percentage of the total wages paid in covered employment during the preceding calendar year and dividing this by the highest cost rate expressed as a percentage of total wages of any 12-month period in the last decade. Starting in 1969 in accordance with the recommendation in U.I.P.L. No. 1087, issued by the U. S. Department of Labor and included in this study, following Table 7, this divisor has been changed to the highest cost rate since December 31, 1957. The "highest cost rate" was 1.56 percent as of June 30, 1940; 1.77 percent with respect to June 1941 through June 1950; 1.70 percent from June 1951 through June 1956; 1.62 percent from June 1957 through June 1958; and 1.73 percent since June 1959.

4/ Since benefits started July 1, 1939, a benefit cost rate for a 12-month period did not exist as of June 30, 1939.

5/ Source: State of Illinois, Department of Labor; Bureau of Employment Security; Monthly Highlights, July 1970.

6/ United States Bureau of Employment Security, Handbook of Unemployment Insurance Financial Data 1946-1963 (Revised May 1964), Supplement of July 1970, (now issued by Manpower Administration, U. S. Department of Labor).

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TABLE 2. Benefits, benefit cost rate, state experience factor, and average contribution rate, Illinois, 1939-1970 1/

Year	Benefits in thousands of dollars 2/	Benefit cost rate		State experience factor (percent)			Average contribution rate (percent of taxable wages)
		Percentage of total wages 3/	Percentage of taxable wages 3/	Unadjusted	Adjustment	Adjusted	
1939	$16,783 4/	.69 4/	.69 4/	5/	5/	5/	2.70
1940	43,565	1.57	1.73	5/	5/	5/	2.70
1941	28,367	.82	.91	5/	5/	5/	2.70
1942	38,105	.92	1.02	5/	5/	5/	2.70
1943	10,035	.21	.23	18	0	18	1.53 6/
1944	6,972	.13	.15	19	0	19	1.70 6/
1945	36,359	.69	.80	19	0	19	1.47 6/
1946	77,542	1.31	1.55	18	-6	12	.79
1947	47,229	.67	.83	17	-5	12	.85
1948	50,230	.65	.83	19	-4	15	1.05
1949	105,384	1.41	1.82	19	-6	13	1.01
1950	93,020	1.15	1.53	19	-6	13	.76
1951	56,877	.62	.86	19	-2	17	1.09
1952	57,345	.59	.84	20	-2	18	1.10
1953	51,085	.48	.71	20	-4	16	.90
1954	133,369	1.28	1.92	19	-7	12	.61
1955	78,115	.69	1.08	17	-5	12	.72
1956	61,398	.49	.78	18	0	18	1.10
1957	80,307	.61	1.01	18	-2	16	1.00
1958	216,545	1.70	2.86	19	-4	15	.78
1959	129,708	.94	1.63	18	0	18	1.06

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TABLE 2. Benefits, benefit cost rate, state experience factor, and average contribution rate, Illinois, 1939-1970 1/ -Concl.

Year	Benefits in thousands of dollars 3/	Benefit cost rate		State experience factor (percent)			Average contribution rate (percent of taxable wages)
		Percentage of total wages 3/	Percentage of taxable wages 3/	Unadjusted	Adjustment	Adjusted	
1960	$136,148	.96	1.71	22	18	40	2.05
1961	184,189	1.29	2.35	22	17	39	2.07
1962	144,917	.97	2.80	23	19	42	2.20
1963	145,942	.94	1.79	22	16	38	2.05
1964	115,128	.69	1.36	23	10	33	1.93
1965	89,497	.49	1.00	23	2	25	1.36
1966	70,514	.35	.73	22	-8	14	.81
1967	90,273	.43	.91	22	-15	7	.41
1968	92,797	.41	.90	21	-17	4	.27
1969	89,415	.36	.83	21	-12	9	.41
1970	180,400 7/	.72 8/	1.68 8/	21	-8	13	.51 8/

1/ Source: United States Bureau of Employment Security, Handbook of Unemployment Insurance Financial Data, 1935-1958 (Revised Edition, April 1960), Section II; Handbook of Unemployment Insurance Financial Data, 1946-1963 (Revised May 1964), pp. 87-88; and 1964 through 1970 supplements; Illinois Division of Unemployment Compensation.

2/ Includes both regular and temporary emergency State benefits, adjusted for voided checks and for transfers under the interstate combined-wage plan.

3/ For wages in 1939-1969 see Table 1. For 1970, total wages were estimated as $25,200,000,000 and taxable wages were estimated as $10,750,000,000.

4/ Benefit payments began July 1, 1939.

5/ None. Experience rating began in 1943.

6/ Includes effect of war risk contributions.

7/ Preliminary.

8/ Estimated.

TABLE 3. Assumptions for estimation of Illinois unemployment trust fund in 1971-1973

Year	Total wages	Taxable wages	Benefits	Benefit cost rate		Unadjusted state experience factor (percent)
				Percentage of total wages	Percentage of taxable wages	
	(millions of dollars)					
1970	$25,200	$10,750	$180.4	0.72	1.68	21
			Recovery in 1972			
1971	26,550	11,250	199.1	0.75	1.77	22
1972	30,650 1/	15,860 2/	153.3	0.50	0.97	22
1973	32,950 1/	16,400 2/	164.5	0.50	1.00	22
			Mild recession in 1972			
1971	26,000	10,750	208.0	0.80	1.93	22
1972	29,000 1/	14,950 2/	377.0 3/	1.30	2.52	22
1973	31,000 1/	15,400 2/	310.0 3/	1.00	2.01	23
			Severe recession in 1972			
1971	26,000	10,750	208.0	0.80	1.93	22
1972	28,000 1/	14,500 2/	504.0 2/	1.80	3.48	22
1973	29,300 1/	14,660 2/	293.0 3/	1.00	2.01	23

1/ Assumptions for total wages in 1972 and 1973 reflect an increase in covered employment (estimated at 9 percent) due to the extension of coverage provided under Public Law 91-373.

2/ Assumptions for taxable wages in 1972 and 1973 reflect the provision of Public Law 91-373 providing for an increase in taxable wage base from $3,000 to $4,200, along with the provision for extension of coverage.

3/ Assumptions for benefits in 1972 and 1973 reflect the provisions of Public Law 91-373 regarding the establishment of federal and state trigger points for temporary extended benefits, and the assumption by the Federal government of 50 percent of the cost of these temporary extended benefits.

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TABLE 4. Unemployment trust fund, 1/ Illinois 1970-1973, subject to assumptions of Table 3

Amounts are in millions of dollars

Year	Receipts			Benefits	Unemployment trust fund December 31 2/	Total wages in year ended June 30	Unemployment trust fund at end of year as	
	Total	Contributions	Interest on fund				Percentage of total wages	Multiple of highest cost rate 3/
1970	$79.2	$57.1	$22.1	$180.4	$400.3	$25,387	1.58	.91
				Recovery in 1972				
1971	108.2	91.9	16.3	199.1	309.4	25,543	1.21	.70
1972	253.9	238.1	15.8	153.3	410.0	28,765	1.43	.83
1973	308.9	286.5	22.4	164.5	554.4	31,850	1.74	1.01
				Mild recession in 1972				
1971	106.8	90.6	16.2	208.0	299.1	25,443	1.18	.68
1972	233.1	222.9	10.2	377.0	155.1	27,615	.56	.32
1973	392.4	383.7	8.7	310.0	237.5	29,850	.80	.46
				Severe recession in 1972				
1971	106.8	90.6	16.2	208.0	299.1	25,443	1.18	.68
1972	223.5	216.4	7.1	504.0	18.5	27,165	.07	.04
1973	415.2	412.2	3.0	293.0	140.8	28,400	.50	.28

1/ Figures for 1970 are actual. All others are estimates.
2/ Including interest for the last quarter which is credited after the end of the year. As a result of rounding, the difference between successive fund balances may not agree exactly with the difference between receipts and benefits.
3/ As defined in Table 1, footnote 3, the "highest cost rate" is 1.73 percent with the following exception: - under the severe recession assumption it becomes 1.80 percent for 1973.

TABLE 5. Estimation[1]/ of contributions for 1970-1973 in Illinois subject to assumptions of Table 2

Year	Estimated average benefit wage ratio (percent)	Adjusted state experience factor (percent)	Average contribution rate (percent)	Taxable wages in millions of dollars	Assessed contributions for year in millions of dollars
			Recovery in 1972		
1970	3.932	13	0.51	$10,750	$54.8
1971	4.456	23	0.86	11,250	96.8
1972	5.969	38	1.62	15,800	256.0
1973	6.569	38	1.78	16,400	291.9
			Mild recession in 1972		
1970	3.932	13	0.51	10,750	54.8
1971	4.456	23	0.86	10,750	92.5
1972	5.984	38	1.62	14,950	242.2
1973	8.041	58	2.62 [2]/	15,400	403.5
			Severe recession in 1972		
1970	3.932	13	0.51	10,750	54.8
1971	4.456	23	0.86	10,750	92.5
1972	5.984	38	1.62	14,500	234.9
1973	8.894	67	2.99 [2]/	14,600	436.5

[1]/ The average benefit wage ratios and the adjusted state experience factors for 1970 and 1971 are actual. All other figures in this table are estimated.

[2]/ When average contribution rates are very high, the method of estimating them may not fully reflect the limiting effect of the maximum rates. It is possible that the average contribution for 1973 may be as low as 2.5 percent under the assumption of a mild recession in 1972 and as low as 2.7 percent under the assumption of a severe recession in 1972.

U. S. DEPARTMENT OF LABOR
Manpower Administration
Washington, D. C. 20210

November 2, 1970

UNEMPLOYMENT INSURANCE PROGRAM LETTER NO. 1087

TO: ALL STATE EMPLOYMENT SECURITY AGENCIES

SUBJECT: Unemployment Insurance Financial Developments,
            Fiscal Year 1970

PURPOSE: To transmit statistical tables and summary analysis of
unemployment insurance financial developments for fiscal year 1970.

On June 30, 1970, unemployment insurance reserves of the 50 States
and the District of Columbia and Puerto Rico reached a total of $12.4
billion, a modest increase of 2.9 percent from a year earlier.   This
amount represented 6.84 percent of taxable wages and 3.39 percent
of total wages paid in covered employment for the fiscal year. 1/
Employer tax collections, benefit payments to the insured unemployed,
and interest credited to State reserve balances in the Unemployment
Trust Fund are the principal items that determine the net increase
or decrease in reserve funds.   The impact of higher levels of unem-
ployment during most of fiscal year 1970 resulted in unemployment
insurance benefit payments in excess of tax income.   Benefit payments
for the fiscal year totaled $2.8 billion, an increase of 37.7 percent
from the prior year, while tax collections of $2.6 billion increased
slightly--0.1 percent.   Interest earnings on invested funds, an increas-
ingly important source of income, amounted to $575 million--up 15.6
percent.   As the net result of these and small supplementary items
of income and outgo, total income exceeded total disbursements by
$356 million, increasing State reserve funds from $12,088 million on
June 30, 1969, to $12,444 million on June 30, 1970.

Data on the financial transactions in each State (attachment 1) are
summarized in the following table to show the principal items of
income and outgo as they affect reserves for the nation as a whole:

1/ The 1970 ratios shown in the tables are preliminary, since they are
   based on wage data for the 12 months ending December 31, 1969.
   When wage data for fiscal year 1970 become available, the ratios
   will be recomputed and may differ slightly from the preliminary
   figures.

Item	Fiscal year 1969 Amount (in millions)	Fiscal year 1970 Amount (in millions)	Percent change from 1969
Reserves, July 1	$11,093	$12,088	+ 9.0
Tax collections	2,556	2,558	+ 0.1
Interest earned	497	575	+15.6
Benefits paid	2,021	2,783	+37.7
Reserves, June 30	12,088	12,444	+ 2.9

State-by-State comparison of financial data reveals, as is to be expected,
wide variations. (See Attachments 2 and 3.) The percentages based
on total wages are more meaningful in making interstate comparisons
than those based on taxable wages, because of differences in the taxable
wage bases in the States. Twenty-two States had a wage base higher
than the Federal base of $3,000. State reserve ratios, based on total
wages, ranged from 1.80 percent in Illinois to 5.93 percent in Puerto
Rico and 4.89 percent in Washington. The increase in the reserve
level, as measured by this ratio, for the nation as a whole for fiscal
year 1970 was shared in varying degrees by over half the States.
Benefit costs (benefits paid as a percent of total wages) were highest
in Puerto Rico (1.89 percent), Alaska (1.60 percent), Washington (1.44
percent), and Rhode Island (1.39 percent); they were lowest in Virginia
(0.22 percent), Texas (0.25 percent), and in Colorado and Georgia
(0.32 percent). Benefit cost rates for fiscal year 1970 were, as for
the nation as a whole, above the previous year in all States (in most
cases substantially) except North Dakota and South Dakota.

The adequacy of State reserve funds in relation to potential recession
costs may be measured by the reserve ratio (dollar reserves as a
percentage of total wages) as a multiple of the highest consecutive 12-
month average benefit cost rate (benefit payments as a percentage of
total wages since the end of 1957). From the standpoint of an indi-
vidual State, the use of the reserve multiple in conjunction with the
State's economic and industrial characteristics should provide a good
gauge of reserve fund adequacy. In general, however, a reserve
multiple of 1.5 indicates the minimum adequate reserve level necessary
to meet the full cost of a recession. State reserves on June 30, 1970,

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representing 3.39 percent of total wages, amounted to 1.65 times
the highest cost rate (2.05 percent) since the close of 1957, compared
with a multiple of 1.69 at the end of the previous year. On June 30,
1970, 17 States had reserve funds less than 1.5 times their highest
cost rate, while in one of these States the reserve ratio was less
than the high-cost experience (a multiple of less than 1). A year ago
the corresponding figures were 15 and 2. Twenty-two States had a
multiple of at least 2; nine States had a multiple of 3 or more; and
two States had a multiple of 4 or more.

Although a multiple of 1.5 has been generally suggested as a minimum
adequate level, this is not an inflexible measure, but rather a useful
tool for evaluating relative fund solvency. No single measure can
substitute for periodic actual reviews that take into account past
experience and probable future developments not only in financing but
also in the broad economic area.

PAUL J. FASSER, JR.
Deputy Assistant Secretary
for Manpower and
Manpower Administrator

RESCISSIONS: UIPL 1043

3 Attachments:

Table 1.   Summary of Financial Activities of State UI Funds, FY 1970
Table 2.   Selected Financial Data on State UI Programs, FY 1970
            and 1969
Table 3.   State Reserve Ratio as a Multiple of Highest 12-Month
            Benefit Cost Rate Since January 1, 1958, and Percent
            Changes in Dollar Reserves, Tax Collections, and Benefit
            Payments, FY 1969-1970

(U.I.P.L. 1087)

Table 1. Summary of Financial Activities of State Unemployment Insurance Funds,
Fiscal Year 1970
(in thousands)

State	Available reserve fund as of June 30, 1969 1/	Revenue during year				Disbursements during year				Available reserve fund as of June 30, 1970 1/
		Total revenue	Contributions collected 2/	Interest earned	Transfers to State accounts 3/	Total disbursements	Benefits paid	Penalties and interest 4/	Transfers out of State accounts 5/	
UNITED STATES...	$12,088,412	$3,144,179	$2,559,057	$575,179	$9,943	$2,788,959	$2,783,387	$1,027	$4,545	$12,443,633
Alabama.........	126,355	32,229	25,997	6,147	85	24,141	24,141	--	--	134,440
Alaska..........	22,215	16,743	15,474	1,263	6	9,109	9,058	41	10	29,840
Arizona.........	99,689	26,777	21,727	5,029	21	9,791	9,658	--	133	116,676
Arkansas........	48,971	17,773	15,388	2,343	42	17,230	17,230	--	--	49,514
California......	1,216,424	591,153	531,108	59,631	414	498,724	498,108	616	--	1,308,853
Colorado........	77,641	17,742	13,986	3,696	60	10,203	10,155	48	--	85,181
Connecticut.....	298,118	81,318	67,117	13,828	373	86,272	86,265	2	5	293,165
Delaware........	24,231	7,380	6,287	1,093	--	7,622	7,622	--	--	23,989
Dist. of Col....	75,160	10,849	7,373	3,476	--	10,206	10,206	--	--	75,806
Florida.........	248,807	46,807	34,939	11,868	--	26,133	26,133	--	--	269,481
Georgia.........	302,387	52,677	37,764	14,789	124	21,480	21,341	--	139	333,585
Hawaii..........	39,015	16,186	14,203	1,965	18	9,784	9,784	--	--	45,417
Idaho...........	41,672	10,836	8,789	2,019	28	8,080	8,080	--	--	44,438
Illinois........	504,313	76,750	53,425	22,489	836	132,099	131,904	--	195	448,965
Indiana.........	304,639	64,575	49,786	14,788	1	42,417	41,908	--	509	326,797
Iowa.......	130,906	20,229	14,114	6,067	48	22,362	22,301	--	61	128,773
Kansas..........	95,929	20,952	16,384	4,491	77	22,582	22,422	--	160	94,299
Kentucky........	164,082	35,830	27,990	7,836	4	28,616	28,519	29	68	171,296
Louisiana.......	162,274	39,309	31,882	7,403	24	47,497	47,142	--	355	154,087
Maine...........	43,665	12,226	10,134	2,013	79	14,162	13,824	--	338	41,729
Maryland........	226,003	32,710	22,235	10,475	--	36,520	36,520	--	--	222,193
Massachusetts...	389,216	140,401	121,586	18,695	120	122,979	122,976	--	3	406,638
Michigan........	612,451	154,173	125,788	28,383	2	178,079	178,079	--	--	588,545
Minnesota.......	100,336	51,871	46,554	5,317	--	35,937	35,887	--	50	116,270
Mississippi.....	83,441	11,478	7,531	3,912	35	11,328	11,250	--	78	83,589
Missouri........	280,820	50,807	37,369	13,051	387	58,190	57,120	--	1,070	273,437
Montana.........	23,648	7,760	6,608	1,146	6	7,074	7,074	--	--	24,335
Nebraska........	52,961	9,701	7,102	2,539	60	7,297	7,297	--	--	55,363
Nevada..........	34,424	13,975	12,232	1,743	--	9,398	9,318	--	80	39,001
New Hampshire...	50,660	8,612	6,127	2,474	11	4,064	4,064	--	--	55,209
New Jersey......	459,044	203,769	181,058	21,784	927	190,955	190,955	--	--	471,858
New Mexico......	40,709	9,029	7,060	1,937	32	8,295	8,295	--	--	41,442
New York........	1,747,834	401,993	318,910	81,950	1,133	381,199	381,199	--	--	1,768,630
North Carolina..	370,633	67,219	49,124	18,095	--	34,370	34,370	--	--	403,481
North Dakota....	8,656	5,821	5,342	479	--	3,891	3,856	--	35	10,586
Ohio............	675,164	122,218	87,788	32,182	2,248	94,551	94,551	--	--	702,831
Oklahoma........	59,847	13,998	11,216	2,782	--	14,571	14,571	--	--	59,274
Oregon..........	131,631	35,935	29,663	6,194	78	41,357	41,357	--	--	126,209
Pennsylvania....	814,858	202,941	163,477	39,129	335	153,340	152,866	271	203	864,458
Puerto Rico.....	84,298	33,311	29,400	3,904	7	28,625	28,625	--	--	88,984
Rhode Island....	81,374	22,879	19,040	3,839	--	22,577	22,577	--	--	81,675
South Carolina..	149,481	32,851	25,563	7,278	10	18,716	18,656	--	60	163,616
South Dakota....	18,660	4,089	2,021	893	1,175	3,255	3,255	--	--	19,494
Tennessee.......	193,481	55,269	45,766	9,418	85	40,738	40,490	--	248	208,013
Texas...........	350,684	42,712	25,762	16,410	540	41,507	40,897	--	610	351,889
Utah............	45,908	14,431	12,147	2,238	46	11,400	11,385	--	15	48,939
Vermont.........	23,933	7,588	6,396	1,192	--	5,592	5,451	20	121	25,929
Virginia........	204,384	23,199	13,320	9,734	145	12,723	12,723	--	--	214,860
Washington......	328,032	63,359	47,962	15,281	116	89,170	89,170	--	--	302,221
West Virginia...	93,729	23,111	18,489	4,620	2	13,871	13,871	--	--	102,969
Wisconsin.......	309,041	75,070	59,815	15,053	202	56,989	56,989	--	--	327,121
Wyoming.........	16,580	3,557	2,739	818	--	1,890	1,890	--	--	18,245

1/ Represents sum of balances at end of month in the States' benefit payment and clearing accounts, and in the Unemployment Trust Fund in the Treasury of the United States. The Unemployment Trust Fund includes amounts credited to the separate account for each State under the provisions of the Employment Security Administrative Financing Act of 1954 as amended.

2/ Data represent contributions, penalties, and interest from employers, and contributions from employees in three States (Alabama, Alaska, and New Jersey) which tax workers. Adjusted for refunds and for dishonored contribution checks.

3/ Includes amount of reimbursements from the Federal Extended Compensation Account (TEC Act 1961), Manpower Development Training Act of 1962, and the Temporary Unemployment Compensation Act of 1958 to the accounts of the States in the Unemployment Trust Fund.

4/ Represents penalties and interest collected from delinquent employers and transferred to States' special administrative fund.

5/ Includes funds withdrawn from the Unemployment Trust Fund for administration and for restoration of funds made available to the States in 1958 under the Temporary Unemployment Compensation Act of 1958 (TUC).

Table 2. Selected Financial Data on State Unemployment Insurance Programs,
Fiscal Years 1970 and 1969

| State | Tax base $3,000 except as shown with effective dates 1/ | Cost rate: Benefits as a percent of-- | | | | Reserve ratio: Funds available as of June 30, as a percent of-- | | | | Highest consecutive 12-month cost rate (since January 1958) as of June 30, 1969 and 1970 (based on total wages) | Reserve ratio as a multiple of highest consecutive cost rate (since January 1958) as of June 30 (based on total wages) | |
| | | Taxable wages | | Total wages | | Taxable wages | | Total wages | | | | |
		1970 2/	1969	1970 2/	1969	1970 2/	1969	1970 2/	1969		1970 2/	1969
United States.........		1.53	1.13	.76	.58	6.84	6.73	3.39	3.47	2.05 2/3/	1.65	1.69
Alabama...............		1.09	.97	.58	.55	6.07	5.66	3.23	3.21	1.93	1.67	1.66
Alaska...............	$7,200 (1/60)	2.21	1.97	1.60	1.47	7.29	5.82	5.28	4.35	4.33	1.22	1.00
Arizona...............	3,600 (1/65)	.69	.64	.39	.38	8.36	7.38	4.69	4.38	1.16	4.04	3.78
Arkansas..............		1.38	.94	.84	.59	3.97	3.97	2.42	2.50	1.76	1.38	1.42
California............	3,800 (1/67)	2.34	1.88	1.23	1.02	6.15	5.81	3.24	3.16	2.26	1.43	1.40
Colorado..............		.64	.43	.32	.22	5.35	5.11	2.66	2.59	1.26	2.11	2.06
Connecticut...........	3,600 (1/68)	2.41	1.67	1.14	.87	8.18	8.36	3.89	4.37	2.87	1.36	1.52
Delaware..............	3,600 (1/55)	1.26	1.03	.62	.52	3.97	4.04	1.95	2.04	1.60	1.22	1.28
Dist. of Col..........		1.05	.82	.47	.38	7.83	7.78	3.52	3.63	.77	4.57	4.71
Florida...............		.54	.44	.28	.24	5.58	5.36	2.88	2.94	1.13	2.55	2.60
Georgia...............		.60	.41	.32	.23	9.35	8.61	4.95	4.79	1.59	3.11	3.01
Hawaii................	5,500 (1/70)	1.11	.79	.75	.54	5.15	4.70	3.46	3.25	1.85	1.87	1.76
Idaho.................	3,600 (1/63)	1.60	1.43	.99	.88	8.82	8.60	5.43	5.30	2.24	2.42	2.37
Illinois..............		1.23	.81	.53	.36	4.18	4.72	1.80	2.11	1.72	1.05	1.23
Indiana...............		.90	.55	.41	.26	7.00	6.58	3.18	3.12	1.73	1.84	1.80
Iowa..................		1.26	.87	.60	.43	7.25	7.43	3.49	3.71	.97	3.60	3.82
Kansas................		1.65	.95	.83	.49	6.92	7.10	3.49	3.68	1.37	2.55	2.69
Kentucky..............		1.44	1.00	.74	.54	8.62	8.30	4.44	4.48	2.77	1.60	1.62
Louisiana.............		1.98	1.55	.98	.80	6.46	6.80	3.21	3.51	1.95	1.65	1.80
Maine.................		1.96	1.43	1.08	.82	5.92	6.18	3.27	3.55	2.84	1.15	1.25
Maryland..............		1.25	1.04	.60	.52	7.59	7.80	3.66	3.94	2.19	1.67	1.80
Massachusetts.........	3,600 (1/62)	1.94	1.52	1.07	.84	6.42	6.29	3.52	3.48	2.06	1.71	1.69
Michigan..............	3,600 (4/63)	1.92	1.19	.89	.57	6.34	6.63	2.94	3.21	3.69	.80	.87
Minnesota.............	4,800 (1/66)	.90	.59	.56	.38	2.93	2.56	1.81	1.66	1.70	1.06	.98
Mississippi...........		.93	.63	.55	.39	6.89	6.99	4.08	4.28	1.97	2.07	2.17
Missouri..............		1.49	.93	.70	.45	7.16	7.38	3.33	3.56	1.26	2.64	2.83
Montana...............		1.79	1.26	.97	.71	6.14	5.97	3.34	3.36	3.03	1.10	1.11
Nebraska..............		.79	.69	.41	.37	5.98	5.85	3.08	3.12	.98	3.14	3.18
Nevada................	3,800 (4/65)	1.43	1.37	.84	.83	5.97	5.61	3.53	3.39	2.75	1.28	1.23
New Hampshire.........		.67	.36	.36	.20	9.17	8.44	4.85	4.65	1.83	2.65	2.54
New Jersey............	3,600 (1/68)	2.52	2.11	1.18	1.02	6.24	6.23	2.92	3.01	2.63	1.11	1.14
New Mexico............		1.43	1.04	.76	.57	7.16	7.15	3.82	3.92	1.64	2.33	2.39
New York..............		2.04	1.56	.88	.70	9.45	9.42	4.10	4.21	2.18	1.88	1.93
North Carolina........		.82	.53	.47	.31	9.65	8.95	5.48	5.31	1.82	3.01	2.92
North Dakota..........	3,800 (1/70)	1.49	1.61	.85	.94	4.10	3.44	2.34	2.01	1.86	1.26	1.08
Ohio		.97	.63	.42	.28	7.23	7.01	3.12	3.15	2.44	1.28	1.29
Oklahoma............		.94	.72	.48	.38	3.83	3.91	1.95	2.07	1.34	1.46	1.54
Oregon	3,600 (1/65)	2.15	1.24	1.19	.71	6.56	6.93	3.64	3.99	2.85	1.28	1.40
Pennsylvania..........	3,600 (1/64)	1.26	1.00	.66	.55	7.13	6.74	3.71	3.70	3.02	1.23	1.23
Puerto Rico...........		2.65	2.28	1.89	1.70	8.30	8.04	5.93	5.98	4/2.11	4/2.81	4/2.83
Rhode Island..........	3,600 (1/56)	2.39	1.77	1.39	1.07	8.65	8.61	5.03	5.20	2.97	1.69	1.75
South Carolina........		.98	.66	.55	.39	8.58	7.86	4.84	4.67	1.36	3.56	3.43
South Dakota..........		1.19	1.33	.66	.76	7.10	6.88	3.96	3.92	1.04	3.81	3.77
Tennessee.............	3,300 (1/63)	1.26	.85	.72	.51	6.46	6.04	3.69	3.61	2.18	1.69	1.66
Texas		.49	.32	.25	.17	4.22	4.28	2.12	2.24	.98	2.16	2.29
Utah..................	4,200 (1/64)	1.40	1.13	.87	.73	6.02	5.64	3.74	3.66	1.38	2.71	2.65
Vermont...............	3,600 (1/64)	1.47	1.21	.85	.74	6.97	6.54	4.05	3.97	2.17	1.87	1.83
Virginia..............		.41	.27	.22	.15	6.90	6.59	3.64	3.64	.97	3.75	3.75
Washington............		3.17	1.54	1.44	.73	10.73	11.61	4.89	5.49	2.20	2.22	2.50
West Virginia.........	3,600 (1/62)	1.05	.98	.57	.56	7.82	7.10	4.24	4.03	2.63	1.61	1.53
Wisconsin.............	3,600 (1/66)	1.41	1.02	.75	.54	8.08	8.03	4.28	4.27	1.82	2.35	2.35
Wyoming...............	3,600 (1/68)	.74	.66	.45	.43	7.17	6.43	4.34	4.16	2.44	1.78	1.70

1/ Taxable wages are those portions of the aggregate wages in covered employment which are subject to State unemployment insurance taxes. The taxable wage base is the first $3,000 of a worker's annual earnings in all States except 22.

2/ Due to a 6-month lag in reporting wages, reserve ratios and cost rates for June 30, 1970 have, as their base, wages for the prior calendar year.

3/ No change in high cost as between June 30, 1969 and June 30, 1970.

4/ Puerto Rico covered under Federal Unemployment Tax Act, January 1, 1961.

Table 3. State Reserve Ratio [1]/ as a Multiple of Highest 12-month Benefit Cost Rate [2]/
Since January 1, 1958, and Percent Changes in Dollar Reserves,
Tax Collections, and Benefit Payments, Fiscal Years 1969-1970

STATE	Reserve ratio as a multiple of highest 12-month benefit cost rate as of June 30, 1969	Percent changes from fiscal years 1969 to 1970			Reserve ratio as a multiple of highest 12-month benefit cost rate as of June 30, 1970 [4]/	STATE	Reserve ratio as a multiple of highest 12-month benefit cost rate as of June 30, 1969	Percent changes from fiscal years 1969 to 1970			Reserve ratio as a multiple of highest 12-month benefit cost rate as of June 30, 1970 [4]/
		Reserves	Tax collections	Benefit payments				Reserves	Tax collections	Benefit payments	
Michigan.........	0.87	− 4	(3/)	+ 63	0.80	Indiana........	1.80	+ 7	− 3	+ 66	1.84
Minnesota.......	0.98	+ 16	+ 5	+ 55	1.06	Louisiana......	1.80	− 5	+ 2	+ 27	1.65
						Maryland.......	1.80	− 2	(3/)	+ 21	1.67
Alaska..........	1.00	+ 34	+ 23	+ 20	1.22	Vermont........	1.83	+ 8	− 6	+ 23	1.87
North Dakota....	1.08	+ 22	+ 7	− 5	1.26	New York.......	1.93	+ 1	− 7	+ 32	1.88
Montana.........	1.11	+ 3	+ 9	+ 42	1.10	Colorado.......	2.06	+ 10	+ 76	+ 56	2.11
New Jersey......	1.14	+ 3	+ 10	+ 23	1.11	Mississippi....	2.17	(3/)	+ 2	+ 49	2.07
Illinois........	1.23	− 11	+ 43	+ 53	1.05	Texas..........	2.29	(3/)	− 9	+ 55	2.16
Nevada..........	1.23	+ 13	+ 5	+ 11	1.28	Wisconsin......	2.35	+ 6	− 3	+ 46	2.35
Pennsylvania....	1.23	+ 6	− 4	+ 27	1.23	Idaho..........	2.37	+ 7	+ 8	+ 17	2.42
Maine...........	1.25	− 4	+ 5	+ 37	1.15	New Mexico.....	2.39	+ 2	+ 4	+ 40	2.33
Delaware........	1.28	− 1	+ 23	+ 24	1.22	Washington.....	2.50	− 8	− 3	+105	2.22
Ohio............	1.29	+ 4	− 2	+ 56	1.28	New Hampshire..	2.54	+ 9	− 9	+ 87	2.65
California......	1.40	+ 8	− 4	+ 26	1.43	Florida........	2.60	+ 8	+ 27	+ 28	2.55
Oregon..........	1.40	− 4	+ 6	+ 76	1.28	Utah...........	2.65	+ 7	+ 4	+ 24	2.71
Arkansas........	1.42	+ 1	+ 3	+ 49	1.38	Kansas.........	2.69	− 2	− 4	+ 75	2.55
						Missouri.......	2.83	− 3	+ 7	+ 62	2.64
Connecticut.....	1.52	− 2	+ 3	+ 45	1.36	Puerto Rico....	2.83	+ 7	+ 6	+ 20	2.81
West Virginia...	1.53	+ 10	− 8	+ 7	1.61	North Carolina.	2.92	+ 9	− 6	+ 57	3.01
Oklahoma........	1.54	− 1	+ 5	+ 32	1.46						
Kentucky........	1.62	+ 4	+ 10	+ 44	1.60	Georgia........	3.01	+ 10	− 3	+ 50	3.11
Alabama.........	1.66	+ 6	(3/)	+ 12	1.67	Nebraska.......	3.18	+ 5	− 1	+ 17	3.14
Tennessee.......	1.66	+ 8	+ 2	+ 49	1.69	South Carolina.	3.43	+ 9	+ 3	+ 48	3.56
U. S. AVERAGE...	1.69	+ 3	(3/)	+ 38	1.65	Virginia.......	3.75	+ 5	− 11	+ 53	3.75
Massachusetts...	1.69	+ 4	(3/)	+ 30	1.71	South Dakota...	3.77	+ 4	− 2	− 10	3.81
Wyoming.........	1.70	+ 10	− 7	+ 10	1.78	Arizona........	3.78	+ 17	+ 12	+ 12	4.04
Rhode Island....	1.75	(3/)	− 1	+ 35	1.69	Iowa...........	3.82	− 2	+ 10	+ 46	3.60
Hawaii..........	1.76	+ 16	+ 7	+ 49	1.87	Dist. of Col...	4.71	+ 1	+ 4	+ 29	4.57

1/ Reserves as percent of total wages.
2/ Benefits as percent of total wages.
3/ Less than 0.05 percent.
4/ No State experienced a change in the highest 12-month benefit cost rate during fiscal year 1970. (See table 2.) Therefore,
a reserve multiple (reserve ratio ÷ highest cost rate) as between June 30, 1969, and June 30, 1970, moved upward (or
downward) solely because the reserve ratio moved upward (or downward).

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